August 25, 2005

Oversight Review

Quality Control Review of Army Audit Agency's Special Access Program Audits (Report No. D-2005-6-008)

Department of Defense
Office of the Inspector General

Quality   *Integrity*   *Accountability*

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Acronyms

AAA	Army Audit Agency
AFAA	Air Force Audit Agency
AIC	Auditor-In-Charge
GAS	Government Auditing Standards
PCIE	President's Council on Integrity and Efficiency
SAP	Special Access Program

AUG 2 5 2005

MEMORANDUM FOR AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Quality Control Review of Army Audit Agency's Special Access Program
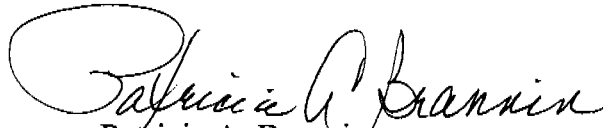Audits (Report No. D-2005-6-008)

We are providing this report for your information and use. We reviewed the Army
Audit Agency (AAA) system of quality control over Special Access Program (SAP)
audits for the three years ended September 30, 2004. The Government Auditing
Standards (GAS) require that an audit organization performing audits and/or attestation
engagements in accordance with GAS should have an appropriate internal quality control
system in place and undergo an external peer review at least once every three years by
reviewers independent of the audit organization being reviewed. As the organization that
has audit policy and oversight responsibilities for audits in the DoD, we conducted this
external peer review of the AAA SAP audits in conjunction with the Air Force Audit
Agency (AFAA) external peer review of AAA non-SAP audits.

An audit organization's quality control policies and procedures should be
appropriately comprehensive and suitably designed to provide reasonable assurance of
meeting the objectives of quality control. We tested the AAA SAP system of quality
control to the extent considered appropriate.

In our opinion, the system of quality control for the audit function of AAA SAP
audits in effect for the period ended September 30, 2004, was designed in accordance
with quality standards established by GAS. Further, the internal quality control system
was operating effectively to provide reasonable assurance that SAP audit personnel were
following established policies, procedures, and applicable auditing standards.
Accordingly, we are issuing an unqualified opinion on your SAP audit quality control
system for the review period ended September 30, 2004.

Appendix B contains comments, observations, and recommendations where AAA
can improve its quality control program related to SAP audits, as well as our responses to
AAA management comments to draft and revised draft versions of this report.
Appendix C provides the full text of management comments in response to both the
original and revised draft reports.

See Appendix A for the scope and methodology of the review. We wish to express our thanks to you and your staff for your cooperation and professionalism. Please contact Mr. Robert L. Kienitz, Acting Project Manager at (703) 604-8754 or Ms. Carolyn R. Davis, Deputy Assistant Inspector General for Audit Policy and Oversight at (703) 604-8877 if you have any questions.

Patricia A. Brannin
Assistant Inspector General
Audit Policy and Oversight

Cc: Director, DoD Special Access Program Coordination Office

Appendix A. Scope and Methodology

We limited our review to the adequacy of AAA SAP audits' compliance with quality policies, procedures, and standards. We judgmentally selected 3 SAP audits from a universe of 72 formal reports issued by AAA SAP auditors during FYs 2002, 2003, and 2004, and tested each audit for compliance with the AAA system of quality control. The AFAA conducted a review of the AAA internal quality control system for non-SAP audits and/or attestation engagements and has issued a separate report. The Assistant Inspector General for Audit Policy and Oversight will issue an overall opinion report on the AAA internal quality control system that will include the combined results of the SAP and non-SAP reviews.

In performing our review, we considered the requirements of quality control standards and other auditing standards contained in the 2003 Revision of the *Government Auditing Standards* issued by the Comptroller General of the United States. GAS 3.52 states:

> The external peer review should determine whether, during the period under review, the reviewed audit organization's internal quality control system was adequate and whether quality control policies and procedures were being complied with to provide the audit organization with reasonable assurance of conforming with applicable professional standards. Audit organizations should take remedial, corrective actions based on the results of the peer review.

We conducted this review in accordance with standards and guidelines established in the Draft 2004 President's Council on Integrity and Efficiency (PCIE) "Guide for Conducting External Peer Reviews of the Audit Operations of Offices of Inspector General." We modified the Guide to ensure consistency with the AFAA review of non-SAP audits, and to reflect the unique nature of auditing within a SAP environment. We reviewed audit documentation, interviewed AAA auditors and their managers, reviewed AAA internal audit-related policies and procedures. We performed this review from April to June 2005 at two AAA field offices.

We used the following criteria to select the audits under review:

- Worked backward starting with FY 2004 audits in order to review the most current quality assurance procedures in place.
- Eliminated Base Realignment and Closure audits because they are not considered typical audits.
- Avoided audits with multiple SAPs associated with the audit for ease of access.
- Avoided audits that have the same or similar titles, to ensure review of multiple types of projects.

The following table identifies the specific reports reviewed.

Report Number	Date	Title
A-2004-0296-AMI	12 May 2004	Coordinating Requirements for Special Access Program, Site B
A-2004-0276-AMI	05 May 2004	Department of the Army Support Program
A-2003-0386-AMI	06 August 2003	Intelligence Support to Special Access Programs, Site E

Limitations of Review. Our review would not necessarily disclose all weaknesses in the system of quality control or all instances of noncompliance with it because we based our review on selective tests. There are inherent limitations in considering the potential effectiveness of any quality control system. In performing most control procedures, departures can result from misunderstanding of instructions, mistakes of judgment, carelessness, or other human factors. Projecting any evaluation of a quality control system into the future is subject to the risk that one or more procedures may become inadequate because conditions may change or the degree of compliance with procedures may deteriorate.

Appendix B. Comments, Observations, and Recommendations

We are issuing an unqualified opinion because this is the first external peer review for AAA SAP audits and the issues we identified were not cumulatively significant to the reports' findings, conclusions, and recommendations. Overall, we found that AAA could improve the quality control program and guidance related to the areas of Supervision, Evidence and Audit Documentation, Reporting, and Quality Assurance for SAP audits. Implementing the recommendations would improve the quality control system and help maintain an unqualified opinion.

Supervision. The 2003 revision of the GAS issued by the Comptroller General of the United States requires staff to be properly supervised and reviews of audit work to be documented. Additionally, AAA Regulation 36-3, "Audit Survey and Execution," states that supervisory reviews of working papers are mandatory and supervisors must document their reviews.

We found that the Auditors-In-Charge (AIC) usually documented their reviews of working papers with initials and dates. However, we found that most working papers created by the AIC did not have documented evidence of higher level supervisory review.

The AAA SAP audit environment results in limitations on availability of auditors that have access to the programs because of the special security requirements. As a result, AICs will generally conduct more field work than in an unclassified environment. Therefore, in such an environment, supervision of AIC working papers becomes more important as a quality control measure. AAA SAP audit managers should have procedures in place to ensure they satisfy the supervision standard at all levels for working papers of staff auditors and AICs, including consideration of alternative methods of documenting supervision of AICs.

> **Recommendation.** We recommend that the Army Auditor General develop alternative policy guidance or amend AAA Regulation 36-3 to include procedures for documenting supervisory review of the work of AICs within the SAP environment.

> **Management Comments.** The Army Auditor General partially concurred with the recommendation, stating that while supervisory reviews must be performed and documented, alternative policy guidance or an amendment to existing guidance is not necessary. The Army Auditor General stated that during the course of the peer review of SAP audits, the Program Director for SAP audits issued guidance emphasizing the requirement for supervisory reviews. In addition, the Army Auditor General stated that

AAA would issue a memorandum to all agency personnel discussing the results of the peer review and reminding them of the existing guidance related to supervision. AAA also plans to include supervisory review of working papers as a special interest item during its future post audit reviews and the FY 2006 functional reviews. In addition, as part of a new AAA regulation on the report writing process (to be issued by September 30, 2005), the Independent Review Checklist will include a question on whether the working papers have been reviewed.

Reviewer Response. Management comments meet the intent of the recommendation. The AAA memorandum discussing the results of the peer review and reminding agency personnel of existing guidance related to supervision was issued on July 29, 2005.

Evidence and Audit Documentation. The GAS requires that auditors prepare and maintain audit documentation to form the principal record of the audit work performed and the conclusions reached. AAA Regulation 36-3 states that AAA auditors must ensure the evidence in audit working papers is adequate to support the audit results, to include all statements of fact presented in the audit report. In addition, AAA Regulation 36-3 states that as a general rule all working papers or groups of related working papers should contain certain basic information such as purpose, source, scope, results, and conclusions.

Although we found AAA working papers contained sufficient, competent, and relevant evidence to support judgments and conclusions in the reports, improvements could be made to audit documentation. Some of the deficiencies we noted during our review were:

- Documentation to support changes to facts and figures between the draft and final report was lacking in 1 of the 3 reports reviewed.
- Source documents were missing information about the provider of such documents for 1 of the 3 reports reviewed.
- Working papers, such as background information and briefing charts, were missing purpose, source, scope, and conclusion for all 3 of the reports reviewed.

Recommendation. The Army Auditor General should remind all SAP audit personnel to comply with established guidance for working papers, documentation, and audit evidence.

Management Comments. The Army Auditor General concurred with the recommendation, and stated that AAA would issue a memorandum to all agency personnel discussing the results of the peer review and reminding them of the existing guidance for working paper preparation and content. The memorandum would also remind agency personnel of existing requirements relating to documenting audit work and cross referencing the work.

Reviewer Response. Management comments are responsive. The AAA memorandum discussing the results of the peer review and reminding agency personnel of existing guidance for working paper preparation and content was issued on July 29, 2005.

Reporting. GAS states that evidence included in audit reports should demonstrate the correctness and reasonableness of the matters reported. Furthermore, GAS states that one way to help ensure the audit report is accurate is to use a quality control process such as independent referencing, a process in which an experienced auditor who is independent of the audit verifies that statements of fact, figures, and dates are correctly reported, that findings are adequately supported by the audit documentation, and that the conclusions and recommendations flow logically from the support.

AAA Regulation 36-85, "Independent Report Referencing," requires supervisors to obtain an Independent Reference Review prior to issuing the draft report to Command. The review must be completed by a senior auditor (GS-12 or above) not associated with the audit under review who "verifies the accuracy of the data in the draft audit report (and final report, if changes warrant) by tracing the data to supporting documentation in the working paper files.... In cases where all qualified auditors at a field office work on the audit and funding constraints prevent assigning an outside auditor on temporary duty, the level 2 supervisor may seek a waiver in order to use auditors on the same audit to reference areas they did not work on."

Additionally, AAA Regulation 36-85 states that "The referencer will initial each fact and figure verified in the report to help ensure they overlook nothing. In addition, the referencer will initial each fact and figure directly on the supporting working paper evidencing they found the support."

We found that AAA SAP audit reports generally met the GAS reporting standards for the format of the reports, report contents, report quality, and report issuance and distribution. However, for two of the three SAP audit reports reviewed, the Independent Reference Review was completed by a member of the same team that worked on the audit without an authorizing waiver. AAA SAP auditors stated that they were unable to provide an auditor who was independent of the audit due to the limited number of staff allowed access to the SAP being audited. Auditors at one site also stated that they are never able to provide an independent auditor for this reason.

We also found misleading or unsupported information in the final reports. In one example, a figure in the report was referred to as "FY 2003" information; however, the working papers documented that the figure was "as of 7-23-2003." The information in the report could mislead the reader since over two months of data in the report was not

supported by the audit documentation. Another example is a change in the number of contractors working on a SAP. The draft report said "one full-time contractor," and the final report said "seven contractor personnel." Since there was no cross-referenced version of the final report (and no Independent Reference Review of changes between the draft and final versions), we were unable to verify support for the figure in the final report. In addition, we found one report where the Independent Reference Review was not documented as being completed and the referencer did not place their initials next to each fact and figure referenced on the draft and the supporting working papers as required by AAA policies.

Recommendation. The Army Auditor General should stress to SAP auditors the importance of independent reference reviews by personnel that are independent of the audit work, and ensure compliance with the requirement to obtain a waiver and document specific extenuating circumstances as to why independent referencing cannot be accomplished.

Management Comments. The Army Auditor General concurred with the recommendation and stated that AAA would issue a memorandum to all agency personnel discussing the results of the peer review and reminding them of the existing requirements relating to the selection of the referencer. In addition, the Army Auditor General stated that in instances where an individual not directly associated with the audit is not available to conduct the Independent Reference Review, the Audit Manager will document the specific circumstances and submit a request for waiver to the Program Director. The Army Auditor General stressed that waivers will be the exception rather than the norm for all on-going and future audits.

Reviewer Response. Management comments are responsive. The AAA memorandum discussing the results of the peer review and reminding agency personnel of the existing requirements relating to the selection of the referencer was issued on July 29, 2005.

Quality Assurance. GAS requires each organization to have an appropriate internal quality control system in place. As part of the AAA quality control program, AAA Regulation 36-3 requires a quality control checklist be completed. The checklist includes steps for performance requirements, standards, and auditor independence; entrance and exit conferences; reviewing prior reports and gathering background data; audit programs; data gathering and analysis; due professional care; illegal acts and abuses; working papers; Command relations; and supervisory controls. Since the need for special access and security requirements in a SAP environment can impact the extent of supervision, documentation, and quality controls compared to an unclassified environment, this checklist serves as an important procedure for ensuring quality in SAP audits. For the three audits reviewed, the AAA SAP auditors prepared the quality control

checklist; however, we found no explanations for management items that were not completed or omitted, and the Program Director did not always sign the checklist. GAS 3.50 requires that an audit organizations internal quality control system should include procedures for monitoring, on an ongoing basis, whether the policies and procedures related to the standards are suitably designed and are being effectively applied. This often referred to as an internal quality assurance program.

AAA Regulation 36-62, "Quality Assurance Program and External Quality Control Review Responsibilities," provides guidance for conducting the quality assurance program within the AAA. The regulation states that AAA Quality Assurance Branch personnel will make periodic internal quality control reviews of selected audit projects. The reviews will be structured to evaluate compliance with GAS. Depending on the priorities established by the Auditor General, the 3-year plan will include a mix of audit and non-audit projects. The regulation further states that all AAA activities and functions are subject to internal quality control reviews except for SAPs. However, SAPs are subject to external quality control reviews.

AAA's management comments to the original draft of this report indicated that it was AAA's intent to include the SAP audits in their internal quality assurance review program. AAA should modify AAA Regulation 36-62 to specifically include SAP audits as part of the internal quality assurance program. We recognize that the usual AAA quality assurance program may need to be adapted to the SAP environment; therefore, the regulation should address the SAP environment. Having the internal quality assurance visibility within the SAP environment is critical to an effective quality program given the challenges faced in meeting the other quality processes identified in the report and given the rare occurrence of an external peer review within the environment.

Recommendation. The Army Auditor General should remind SAP auditors of existing requirements to complete a quality control checklist, including explaining all omitted steps, and obtaining appropriate Program Director signature and date for the completed checklist.

Management Comments. The Army Auditor General concurred with the recommendation and stated that AAA would issue a memorandum to all agency personnel discussing the results of the peer review and reminding them of the existing requirements to complete the Quality Control Checklist and obtain the appropriate Program Director's signature and date for the checklist. In addition, the Army Auditor General stated that by September 30, 2005, AAA will include a standard policy paragraph on the Quality Control Checklist in the regulations. The policy will direct auditors to find the most current checklist and to provide an explanation for any omitted checklist steps.

Reviewer Response. Management comments are responsive. The AAA

memorandum discussing the results of the peer review and reminding agency personnel of the existing requirements to complete the Quality Control Checklist and obtain the appropriate signature's on the checklist was issued on July 29, 2005.

Recommendation. The Army Auditor General should amend AAA Regulation 36-62 to eliminate the exception for SAPs and if needed, adapt the internal quality assurance procedures for the SAP environment.

Management Comments. The Army Auditor General concurred with the recommendation and stated that by October 31, 2005, AAA will issue an amended AAA Regulation 36-62 that will include removal of the exception for SAP audits in the AAA internal quality assurance procedures.

Reviewer Response. Management comments are responsive.

Appendix C. Management Comments

DEPARTMENT OF THE ARMY
OFFICE OF THE AUDITOR GENERAL
3101 PARK CENTER DRIVE
ALEXANDRIA, VIRGINIA 22302-1596

SAAG-ZA   1 July 2005

MEMORANDUM FOR Assistant Inspector General, Audit Policy and Oversight, Inspector General, Department of Defense, 400 Army Navy Drive, Arlington, VA 22202-4704

SUBJECT: Quality Control Review of Special Access Program Audits

1.   We are providing our written response (enclosure) to the draft recommendations in Appendix B to your memorandum dated 15 June 2005. We concur with the intent of all of the recommendations in Appendix B, Comments, Observations, and Recommendations.

2.   We appreciate the timeliness of your opinion report, and the opportunity to provide comments pertaining to your draft. We are especially pleased with your conclusion that our system of quality control was designed in accordance with quality standards established by government auditing standards and provides reasonable assurance that our auditors working on Special Access Programs are following established policies, procedures, and applicable auditing standards.

3.   We thank you and your staff for their professionalism in performing the quality control review and bringing to our attention areas where we can improve our operations. If you have any questions or need additional information, please call Ms. Theresa Wilson at (703) 428-7213 or e-mail Theresa.Wilson@aaa.army.mil or Ms. Lynn Houck at (703) 428-7222 or e-mail Patricia.Houck@aaa.army.mil.

Encl

JOYCE E. MORROW
The Auditor General

**Comments on Appendix B. Comments, Observations, and Recommendations
Quality Control Review of Special Access Program Audits
(Project No. D2005-DIP0AI-0098)**

Overall: We are pleased with your overall conclusion that the U.S. Army Audit Agency (USAAA) has implemented a comprehensive internal quality control program that complies with government auditing standards, is operating effectively, and provides reasonable assurance that audit teams follow internal policies and procedures and applicable government auditing standards. Our written comments pertain to the recommendations in the draft memorandum, Quality Control Review of the Army Audit Agency's Special Access Program Audits.

Supervision

Recommendation: We recommend that the Army Auditor General develop alternative policy guidance or amend AAA Regulation 36-3 to include procedures for documenting supervisory review of the work of AICs within the SAP environment.

USAAA Comments: We concur that supervisory reviews must be performed and documented; however, we disagree that alternative policy guidance or an amendment to USAAAR 36-3 (Audit Survey and Execution) is necessary. USAAAR 36-3 states "Supervisory reviews of working papers are mandatory, and supervisors must document their reviews." This is applicable to all auditors whether they are working classified, unclassified or special access program audits. We concur that appropriate supervisory review of classified documents is important as a quality control measure.

During the course of this review, the Program Director for SAP audits issued guidance emphasizing the requirement for supervisory reviews. By 15 July 2005, the Deputy Auditor General, Policy and Operations Management will issue a memorandum to all Agency personnel discussing the results of the peer review of the Agency and reminding Agency personnel of the requirements in USAAAR 36-3 relating to supervisory review of working papers and documenting those reviews. Supervisory review of working papers will continue to be a special interest item on future quality assurance post audit reviews and on FY 06 functional reviews. In addition, our new Independent Review Checklist includes a question on whether the working papers have been reviewed. The independent reviewer must comment on whether the working papers have been reviewed. The Independent Review Checklist will be included in USAAAR 36-4 (Report Writing Process). We will issue USAAAR 36-4 by 30 September 2005.

Enclosure

Evidence and Audit Documentation

Recommendation: The Army Auditor General should remind all SAP audit personnel to comply with established guidance for working papers, documentation, and audit evidence.

USAAA Comments: Concur. By 15 July 2005, the Deputy Auditor General, Policy and Operations Management will issue a memorandum to all Agency personnel discussing the results of the peer review of the Agency, and reminding Agency personnel of the established guidance for working paper preparation and content. All working papers will be appropriately marked with purpose, source, scope, results, and conclusion. The memorandum will remind Agency personnel of the requirements in USAAAR 36-3 relating to documenting audit work and cross referencing the work.

Reporting

Recommendation: The Army Auditor General should stress to SAP auditors the importance of independent reference reviews by personnel that are independent of the audit work and ensure compliance with the requirement to obtain a waiver and document specific extenuating circumstances as to why independent referencing cannot be accomplished.

USAAA Comments: Concur. By 15 July 2005, the Deputy Auditor General, Policy and Operations Management will issue a memorandum to all Agency personnel discussing the results of the peer review of the Agency and reminding Agency personnel of the requirements in USAAAR 36-85 (Independent Report Referencing) relating to selection of a referencer.

All efforts will be made to ensure that the independent referencer is not directly associated with the special access program audit under review. In instances where this is not possible, the Audit Manager will document the specific circumstances and submit a request for waiver to the Program Director for approval as prescribed by USAAAR 36-85. However, waivers for an independent referencer will be the exception rather than the norm for all on-going and future audits.

Quality Assurance

Recommendation: The Army Auditor General should remind SAP auditors of existing requirements to complete a quality control checklist, including explaining all omitted steps, and obtaining appropriate Program Director signature and date for the completed checklist.

Enclosure   2

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USAAA Comments: Concur. By 15 July 2005, the Deputy Auditor General, Policy and Operations Management will issue a memorandum to all Agency personnel discussing the results of the peer review of the Agency and reminding Agency personnel of the requirements to complete the Quality Control Checklist and obtain the appropriate program director's signature and date for the checklist. The memorandum will inform Agency personnel that the checklist dated 12 February 2004 is the checklist that they should be using. This version of the checklist is currently available in USAAAR 36-62. The checklist can also be obtained from the audit templates file and the quality assurance Web page on the Agency's intranet. The various sections of the checklist and completing the checklist are discussed in USAAAR 36-2 (Guidance for Planning an Audit Engagement), USAAAR 36-3 (Audit Survey and Execution), Draft USAAAR 36-4 (Report Writing Process), and USAAAR 36-5 (Report Reply and Follow-up Process). By 30 September 2005, we will include a standard policy paragraph on the Quality Control Checklist in the regulations. The policy will direct auditors to find the most current checklist in the templates file on the intranet. The updated Quality Control Checklist will require an explanation for omitted checklist steps.

Enclosure   3

SAAG-PMZ   19 August 2005

MEMORANDUM FOR Assistant Inspector General, Audit Policy and Oversight, Inspector General, Department of Defense, 400 Army Navy Drive, Arlington, VA 22202-4704

SUBJECT: Quality Control Review of Army Audit Agency's Special Access Program (SAP) Audits (Project No. D2005-DIP0AI-0098)

1.   Here is our written response to your draft report dated 1 August 2005. We are providing comments to the recommendation added on page 10 relating to excluding Agency SAP audits from periodic internal quality assurance reviews. We choose not to respond again to the other recommendations. We concur with the intent of all of the recommendations in Appendix B, Comments, Observations, and Recommendations. The added recommendation and our reply follow.

     Recommendation: The Auditor General should amend AAA Regulation 36-62 to eliminate the exception for SAP audits and if needed, adapt the internal quality assurance procedures for the SAP environment.
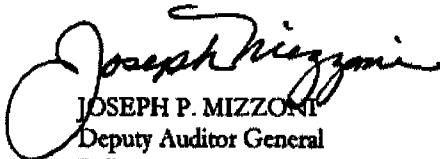
     USAAA Reply: Concur. In our past internal quality assurance reviews, we included non-SAP audit reports completed by the team that performs the SAP audits. Also the SAP audits are subject to external peer review. However, we agree that we should not exclude any audit or group of audits from selection for internal quality assurance review. We are in the process of updating USAAAR 36-62. We are planning to complete the update by 31 October 2005. We will amend the regulation to remove the exception for SAP audits. Because there is no exception for SAP audits, they will be covered by our quality assurance procedures.

2.   We appreciate the timeliness of your opinion report, and the opportunity to provide comments pertaining to your draft. We are especially pleased with your conclusion that our system of quality control was designed in accordance with quality standards established by the Government Auditing Standards and provides reasonable assurance that our auditors working on special access programs are following established policies, procedures, and applicable auditing standards.

SAAG-PMZ
SUBJECT: Quality Control Review of Army Audit Agency's Special Access
Program Audits (Project No. D2005-DIP0AI-0098)

3.   We thank you and your staff for their professionalism in performing the quality control
review and bringing to our attention areas where we can improve our operations. If you
have any questions please call Mr. Charles T. Lyons at 703-681-8391 or email
charles.lyons@aaa.army.mil or Ms. Jo L. Spielvogel at 703-681-4288 or e-mail
jo.spielvogel@aaa.army.mil.

JOSEPH P. MIZZONI
Deputy Auditor General
Policy and Operations Management

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